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Ms. Susan Cospers
Technical Director
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Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the proposed Accounting Standards Update, *Accounting for Identifiable Intangible Assets in a Business Combination, a proposal of the Private Company Council* (the “proposed standard”).

The proposed standard, in tandem with two other proposed Accounting Standards Updates, demonstrates the Private Company Council’s (the PCC) and the FASB’s (the Board) continuing efforts to address the specific financial reporting needs of preparers and users of private company financial statements. We support these efforts and encourage the PCC and the Board to continue to identify areas where either proposed or existing accounting standards may be modified to better support the needs of preparers and users of private company financial statements.

Notwithstanding our overall support of the Board’s and PCC’s objectives, we have concerns with the proposed standard because of the significant differences it would create between the financial reporting of identifiable intangible assets by private companies and public companies. Rather, we would be supportive of a broader reconsideration of the financial reporting model for identifiable intangible assets for all entities.

As discussed in our comment letter dated June 13, 2013 on the Board’s Invitation to Comment on the Private Company Decision-Making Framework (the Framework), we believe that in most cases the financial reporting that is relevant to users of public company financial statements is also relevant to users of private company financial statements. In addition, modifications to the recognition and measurement guidance for private companies should be rare and limited to instances where users of private company financial statements have clearly different information needs than users of public company financial statements.

The basis for conclusions in the proposed standard does not sufficiently distinguish the needs of users of private company financial statements from those of users of public company financial statements to justify a difference in the recognition and measurement of intangible assets in business combinations. Further, we are not convinced that the accounting for intangible assets is



one of those rare instances where there should be a substantial recognition and measurement difference. Therefore, the proposed standard is inconsistent with our view of the objectives of the Framework.

We recognize the practical challenges and costs faced by preparers under the current recognition and measurement model for intangible assets in a business combination. However, we are concerned that the practical expedient in the proposal for limiting the value assigned to certain intangible assets may result in greater measurement inconsistency, in practice, than under a principled application of ASC 820, *Fair Value Measurements*.

Further, the proposed standard may result in additional costs and complexities in certain circumstances. For example, it may be more difficult to separate the value of certain identifiable intangible assets when those assets relate closely to and significantly affect the value of contractual or legal intangible assets and are valued together today. This may be the case where assets arising solely from noncancelable contractual terms or other legal rights—such as patents and trademarks—must be separated from the value of unpatented technology, databases, and knowhow that would not be recognized apart from goodwill under the proposal. Additionally, the application of certain valuation methodologies may still require the determination of the fair value of these identifiable, but unrecognized, intangible assets for purposes of calculating contributory asset charges, which are necessary inputs in the determination of the fair value of recognized identifiable intangible assets.

Consistent with our letter in response to the proposed Accounting Standards Update, *Accounting for Goodwill, a proposal of the Private Company Council*, we would be supportive of the Board undertaking a more comprehensive reconsideration of the existing model for the recognition and measurement of intangible assets in a business combination. That would allow the Board to invest the necessary time and effort to thoroughly research various alternatives, perform sufficient outreach to both private company and public entity constituents, and develop guidance that is sufficiently robust to address challenging implementation issues.

We also question whether a shortened comment period will be sufficient for constituents to fully assess the implications of the significant changes being proposed, including whether the proposed standard should be available to all entities. However, we recognize that the PCC and, in turn, the Board may decide to move forward with the proposed standard for private companies only. If that is the case, we have provided specific comments with respect to the implementation of the proposal in Appendix A. Given our recommendation that the Board should undertake a comprehensive project on the recognition and measurement of intangible assets in a business combination, and our belief that any proposed standard on this topic should be considered for public entities, we have not responded to each of the specific questions in the proposal.



Finally, given the fundamental difference that the proposed standard would create in the financial reporting of identifiable intangible assets between private and public companies, it will be impracticable, in many cases, for a private company that applies the proposed standard to retrospectively adjust its financial statements as a public company. As such, transition guidance or an accommodation should be provided. Otherwise those private companies would effectively be precluded from complying with U.S. GAAP as public companies.

In conclusion, we believe that the economics of transactions and arrangements should be reflected in the financial statements regardless of how the enterprise has chosen to access capital. We are not convinced that there are clear differentiators between the needs of users of public company and private company financial statements with respect to the recognition and measurement of intangible assets in a business combination. Therefore, we encourage the FASB to explore changes to the model for both public and private companies. We advocate the simplification of accounting standards for all preparers where the revised standards reasonably reflect the economics of a transaction.

If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152, Lawrence Dodyk at (973) 236-7213, or Kirsten Schofield at (973) 236-4054.

Sincerely,

PricewaterhouseCoopers LLP



Appendix A

In-process research and development

We recommend that the Board provide implementation guidance to clarify how acquired in-process research and development (IPR&D) is affected by the proposed standard. Under existing guidance, IPR&D intangible assets acquired in a business combination are recognized regardless of whether they arise from cancelable or noncancelable contractual terms or if they arise from other legal rights. The proposed standard includes research and development assets that are not evidenced by noncancelable contractual terms as an example of an identifiable intangible asset that generally would not be recognized separately from goodwill. It is not clear how acquired IPR&D intangible assets that arise from legal rights would be recognized and measured separately from acquired IPR&D intangible assets noted in the proposed standard that would be included with goodwill. The issue of how to separate the fair value of legal or contractual rights from the fair value of rights associated with other intangible assets that are no longer being separately recognized and measured is likely not unique to IPR&D. Accordingly, clarifying guidance in this area should be broadly applicable to all intangible assets.

Noncancelable contract term

Under the proposed standard, a contract is considered noncancelable, and the duration of the noncancelable period continues, if the contract is cancelable “at the option of the acquirer, but not at the option of the counterparty.” This definition does not consider the intent of the acquirer. As a result, a valuation inconsistency could arise if a contract, which is cancelable only at the option of the acquirer and which the acquirer intends to immediately cancel, is valued as a noncancelable contract.

The proposed standard would limit measurement of recognized intangible assets to the “remaining noncancelable term of the contract” without consideration of contract renewals. It is unclear whether a one year contract that is renewable annually for five years at the sole option of the acquirer would be valued differently than a five year contract with no renewal options. Also, it is not clear what life would be assigned to a contract that does not have a specified term but is cancelable at the option of the acquirer.

Lastly, it is unclear what impact the proposed standard would have on the guidance for the settlement of pre-existing relationships.



Disclosures

A company electing to adopt the proposed standard would be required to disclose “the nature of identifiable intangible assets acquired in a business combination but not recognized separately from goodwill...” and “for each major contractual intangible asset recognized and measured under the accounting alternative, a description of the arrangement including its noncancelable term and the basis for determining the value.” We recommend that the Board clarify the periods for which these incremental disclosures must be provided.

Impact on other accounting standards

We recommend that the Board clarify what impact, if any, adoption of the proposed standard would have on the long-lived asset impairment test under ASC 360, *Property, Plant and Equipment*. For an asset group that is held and used, “an impairment loss shall be recognized only if the carrying amount of a long-lived asset (asset group) is not recoverable and exceeds its fair value... An impairment loss shall be measured as the amount by which the carrying amount of a long-lived asset (asset group) exceeds its fair value.” The calculation of the impairment loss considers the fair value of all long-lived assets in the asset group, regardless of whether they are recognized on a company’s balance sheet. It is unclear if the intangible assets addressed by the proposed standard would be considered in a company’s ASC 360 impairment calculation. Accordingly, we recommend that the Board clarify whether the impairment test for held and used assets is impacted by the adoption of the proposed standard and whether it should be presumed that unrecognized intangible assets would not be assigned value in a long-lived asset impairment loss calculation.

Also, under current GAAP a company with an investment accounted for under the equity method is required to identify basis differences between the cost of the investment and the amount of underlying equity in the net assets of the investee. The basis differences are measured based on the recognition and measurement principles in ASC 805, *Business Combinations*. We recommend that the Board clarify whether the measurement of basis differences and subsequent amortization of such differences is impacted by the adoption of the proposed standard. If the Board concludes that the recognition of basis differences is impacted by the proposed standard, we recommend that the Board provide guidance that addresses how a company would apply the standard with respect to its existing equity method investments.